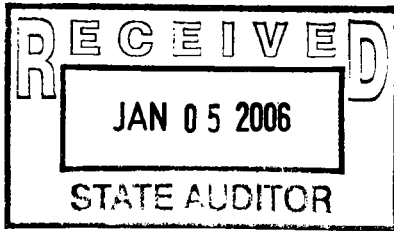


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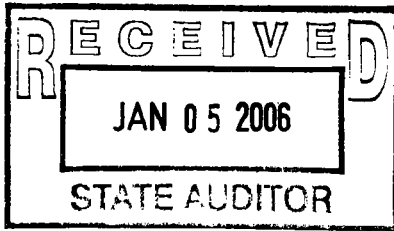
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INDEPENDENT AUDITORS' REPORT
BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**



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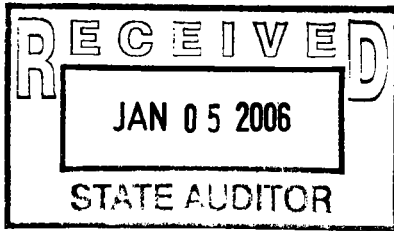
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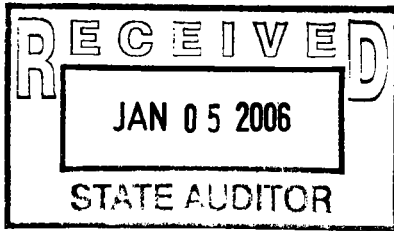
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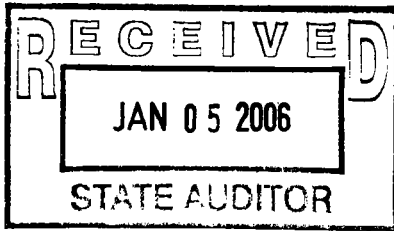
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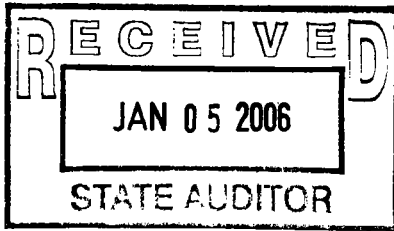
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**NEPHI CITY CORPORATION, UTAH
INDEPENDENT AUDITORS' REPORT
BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

NEPHI CITY CORPORATION, UTAH
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LARSON & PETERSON
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

August 19, 2005

Honorable Mayor
Members of the City Council
Nephi City Corporation, Utah

Mayor and Council Members:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Nephi City Corporation, as of and for the year ended June 30, 2005, which collectively comprise Nephi City Corporation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Nephi City Corporation's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Nephi City Corporation, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and other required supplementary information on pages MDA-1 through MDA-6 and 38 through 39 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 19, 2005, on our consideration of Nephi City Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Nephi City Corporation's basic financial statements. The combining and non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Larson + Peterson".

Larson & Peterson
Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Nephi City, we offer readers of the Nephi City financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2005. It is designed to provide an overview of the City's financial activity. It is also intended to assist the reader in focusing on significant financial issues, including identifying changes in the City's financial position (its ability to address the next and subsequent years' challenges), identifying any material deviations from the approved budget, and identifying individual fund issues or concerns. We encourage readers to consider the information presented here in conjunction with the City's financial statements.

FINANCIAL HIGHLIGHTS

The total net assets of Nephi City increased by \$2,707,513 to \$28,431,736. The governmental net assets increased by \$2,474,614 and the business-type net assets increased by \$232,899.

The total net assets of \$28,431,736 is made up of \$20,086,790 in capital assets net of related debt and \$8,344,846 in other net assets.

The General Fund (the primary operating fund) had a decrease in its fund balance of \$2,524.

REPORTING THE CITY AS A WHOLE

The discussion and analysis is intended to serve as an introduction to Nephi City's basic financial statements. Nephi City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also includes other supplementary information, in addition to the basic financial statements.

The government-wide financial statements are designed to provide readers with a broad overview of Nephi City's finances, in a manner similar to the financial statements of a private-sector business.

The statement of net assets presents information on all of Nephi City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Nephi City is improving or deteriorating. However, other non-financial factors need to be considered.

The statement of activities presents information showing how the City's net assets changed during the fiscal year reported. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus all of the current year's revenues and expenses are taken into account

regardless of when cash is received or paid.

Both of the government-wide financial statements distinguish functions of Nephi City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Nephi City also uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds - These funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. These fund statements focus on how money flows into and out of these funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps users determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation included with the fund financial statements.

The only major governmental fund (as determined by generally accepted accounting principles) is the General Fund. The other governmental funds are determined to be non-major and are included in the combining statements within this report.

Proprietary funds - Nephi City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Nephi City uses enterprise funds to account for its Electric Utility, Water and Sewer Utility, Solid Waste Collection, and Natural Gas Utility. As determined by generally-accepted accounting principles, the Electric, Water and Sewer, Solid Waste Collection, and Natural Gas enterprise funds meet the criteria for major fund classification. Any other funds are classified as non-major and are included in the combining statements within this report.

Fiduciary funds - These funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the

City's own programs. The accounting method used for these funds is much like that used for proprietary funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Nephi City, assets exceed liabilities by \$28,431,736.

By far the largest portion of Nephi City's net assets (\$20,086,790) reflects its investment in capital assets (e.g., land, buildings, infrastructure assets, and machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Net Assets June 30, 2005 and 2004

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 2,597,044	\$ 2,265,918	\$ 6,836,412	\$ 6,603,185	\$ 9,433,456	\$ 8,869,103
Capital assets	7,797,228	7,902,912	8,181,824	8,449,368	15,979,052	16,352,280
Total assets	10,394,272	10,168,830	15,018,236	15,052,553	25,412,508	25,221,383
Other liabilities	24,446	159,857	800,982	766,341	825,428	926,198
Long-term liabilities outstanding	62,654	37,461	2,152,891	2,503,356	2,215,545	2,540,817
Total liabilities	87,100	197,318	2,953,873	3,269,697	3,040,973	3,467,015
Net assets:						
Invested in capital assets, net of related debt	14,012,061	11,459,934	6,074,729	5,987,494	20,086,790	17,447,428
Restricted	54,332	54,332			54,332	54,332
Unrestricted	1,952,159	2,029,673	6,338,455	6,192,791	8,290,614	8,222,464
Total net assets	\$ 16,018,552	\$ 13,543,939	\$ 12,413,184	\$ 12,180,285	\$ 28,431,736	\$ 25,724,224

**Changes in Net Assets
June 30, 2005 and 2004**

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program revenues:						
Charges for services	\$ 1,043,629	\$ 976,451	\$ 6,479,217	\$ 6,120,203	\$ 7,522,846	\$ 7,096,654
Operating grants and contribs	6,743	5,513			6,743	5,513
Capital grants and contribs	2,708,886	2,442,561			2,708,886	2,442,561
General revenues:						
Property taxes	294,197	276,574			294,197	276,574
Other taxes	899,266	984,828			899,266	984,828
Gain/(Loss) on disposal	(3,035)	(95,155)			(3,035)	(95,155)
Unrestricted investment earnings	153,968	123,504	142,905	98,840	296,873	222,344
Other	116,471	34,636	35,335	43,706	151,806	78,342
Total revenues	<u>5,220,125</u>	<u>4,748,912</u>	<u>6,657,457</u>	<u>6,262,749</u>	<u>11,877,582</u>	<u>11,011,661</u>
Expenses:						
General government	737,119	704,881			737,119	704,881
Public safety	961,936	782,591			961,936	782,591
Highways and pub. improvmts	440,451	567,200			440,451	567,200
Parks, Rec., & Public Property	625,146	515,543			625,146	515,543
Interest on long-term debt	(19,141)	4,865			(19,141)	4,865
Water & Sewer			611,115	647,025	611,115	647,025
Electric			3,038,321	2,898,976	3,038,321	2,898,976
Solid Waste Collection			318,476	309,313	318,476	309,313
Natural Gas			2,456,646	1,900,021	2,456,646	1,900,021
Total expenses	<u>2,745,511</u>	<u>2,575,080</u>	<u>6,424,558</u>	<u>5,755,335</u>	<u>9,170,069</u>	<u>8,330,415</u>
Increase in net assets before transfers	<u>2,474,614</u>	<u>2,173,832</u>	<u>232,899</u>	<u>507,414</u>	<u>2,707,513</u>	<u>2,681,246</u>
Transfers	-	-	-	-	-	-
Increase in net assets	<u>2,474,614</u>	<u>2,173,832</u>	<u>232,899</u>	<u>507,414</u>	<u>2,707,513</u>	<u>2,681,246</u>
Net assets - beginning	<u>13,543,939</u>	<u>11,370,107</u>	<u>12,180,285</u>	<u>11,672,871</u>	<u>25,724,224</u>	<u>23,042,978</u>
Net assets - ending	<u>\$ 16,018,553</u>	<u>\$ 13,543,939</u>	<u>\$ 12,413,184</u>	<u>\$ 12,180,285</u>	<u>\$ 28,431,737</u>	<u>\$ 25,724,224</u>

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements.

As of June 30, 2005 the City's governmental funds (General, Capital Projects & other funds) reported combined fund equity of \$2,569,145. This represents an increase of \$463,084 from last year's ending balances, most of which arrive from the increase of revenues over expenditures in the General Fund.

The General Fund is the chief operating fund of the City. All activities which are not required to be accounted for in separate funds, either by state or local ordinance or by a desire to maintain a matching of revenues and expenses, are accounted for in this fund.

Taxes continue to be the largest source of revenue in the General Fund and represent 44.4% of total general fund revenues. The largest element of taxes is sales tax, as it has been for the last several years. It represents 55.5% of total tax revenues and represents 24.6% of total general fund revenues.

As stated earlier, the City maintains several enterprise funds to account for the business-type activities of the City. The separate fund statements included in this report provide the same information for business-type activities as is provided in the government-wide financial statements. However, the difference is that the fund statements provide much more detail.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the fiscal year, the General Fund original budget was amended from an original budget expenditure total of \$2,487,136 to a final budget of \$2,843,636. These increases were made to allow for a larger transfer to the Capital Projects Fund.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets - Nephi City's investment in capital assets for its governmental and business-type activities as of June 30, 2005 amounts to \$22,221,265 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, improvements, infrastructure (streets, sidewalks, curb and gutter, etc.), and machinery and equipment.

Major capital asset events during this fiscal year included the following:

Government Bldg Expansion	\$55,704
Street Rehabilitation	\$135,738
Airport Expansion	\$2,623,266
Animal Shelter	\$91,529

Long-term debt - At June 30, 2005 the City had total bonded debt outstanding of \$2,367,095. Of this amount \$1,770,000 is considered to be general obligation debt backed by the full faith and credit of the City. State statutes limit the amount of general obligation debt a governmental entity may issue to 4% of its total taxable value.

Additional information on the outstanding debt obligations of the City can be found in the footnotes to this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The unemployment rate for Juab County was 6.8% compared with a state unemployment rate of 4.6% and a national rate of 5.1%. Juab County's rate in 2004 was 7.4% (Source: Utah Department of Workforce Services).

The General Fund budget for fiscal year ending June 30, 2005 reflects an increase of 1.1% over the final budget for the fiscal year ended June 30, 2004. The largest part of this increase is because of personnel costs in the general fund.

Some capital improvements budgeted for in the FY 2006 budget include:

- Street Improvements
- Street Rehabilitation
- Downtown Project
- Public Works Building
- Recreation Improvements
- Airport Expansion
- Golf Course Expansion
- Equipment Purchases
- Parks Development

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Nephi City's finances for all those with an interest in the City's finances. Questions concerning any information provided in this report or requests for additional financial information should be addressed to: City Recorder, Nephi City, 21 East 100 North, Nephi, Utah 84648.

BASIC FINANCIAL STATEMENTS

Nephi City Corporation
Statement of Net Assets
June 30, 2005

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Totals
ASSETS			
Cash and cash equivalents	\$ 2,570,364	\$ 5,972,303	\$ 8,542,667
Joint venture investment	-	196	196
Receivables:			
Utility (net of allowance)	-	695,961	695,961
Other governmental units	26,680	167,952	194,632
Advances from other funds	-	50,380	50,380
Capital assets (net of accumulated depreciation):	-	-	-
Land	345,645	386,761	732,406
Buildings and improvements	713,547	7,001,071	7,714,618
Equipment	449,102	793,992	1,243,094
Infrastructure	6,288,934	-	6,288,934
Construction in progress	6,242,213	-	6,242,213
Net bond issue cost	-	47,599	47,599
Inventory	-	159,548	159,548
Total assets	<u>16,636,485</u>	<u>15,275,763</u>	<u>31,912,248</u>
LIABILITIES			
Accounts payable	24,446	405,488	429,934
Accrued interest payable	-	14,489	14,489
Customer utility deposits	-	121,005	121,005
Deferred revenue	503,453	-	503,453
Revenue bonds payable - due within one year	-	260,000	260,000
Revenue bonds payable - due in more than one year	-	2,107,095	2,107,095
Compensated absences	62,654	45,796	108,450
Advances to other funds	27,380	23,000	50,380
Net bond premium	-	8,458	8,458
Net deferred refunding difference	-	(122,752)	(122,752)
Total liabilities	<u>617,933</u>	<u>2,862,579</u>	<u>3,480,512</u>
NET ASSETS			
Invested in capital assets, net of related debt	14,012,061	6,074,729	20,086,790
Restricted for:			
Endowments	54,332	-	54,332
Unrestricted	1,952,159	6,338,455	8,290,614
Total net assets	<u>\$ 16,018,552</u>	<u>\$ 12,413,184</u>	<u>\$ 28,431,736</u>

Nephl City Corporation
Statement of Activities
For the Year Ended June 30, 2005

Function/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Operating		Governmental Activities	Business-type Activities	Total
		Charges for Services	Grants and Contributions			
Primary government:						
Governmental Activities:						
General government	\$ 737,119	\$ 786,309	\$ -	\$ 49,190	\$ -	\$ 49,190
Public safety	961,936	105,270	-	(741,588)	-	(741,588)
Highways and public improvements	440,451	26,940	-	(202,113)	-	(202,113)
Parks, recreation, and public property	625,146	125,110	-	1,889,117	-	1,889,117
Interest on long-term debt	(19,141)	-	-	19,141	-	19,141
Total Governmental Activities	2,745,511	1,043,629	6,743	1,013,747	-	1,013,747
Business-type Activities:						
Water and sewer	611,115	635,012	-	-	23,897	23,897
Electric	3,038,321	2,809,391	-	-	(228,930)	(228,930)
Natural gas	2,456,646	2,709,392	-	-	252,746	252,746
Solid waste collection	318,476	325,422	-	-	6,946	6,946
Total Business-type Activities	6,424,558	6,479,217	-	-	54,659	54,659
Total Primary Government	\$9,170,069	\$7,522,846	\$ 6,743	1,013,747	54,659	1,068,406
General revenues:						
Property taxes				294,197	-	294,197
Sales taxes				800,972	-	800,972
Franchise taxes				98,294	-	98,294
Unrestricted investment earnings				153,968	142,905	296,873
Gain/(Loss) on disposal of capital assets				(3,035)	-	(3,035)
Miscellaneous				116,471	35,335	151,806
Total general revenues and transfers				1,460,867	178,240	1,639,107
Change in net assets				2,474,614	232,899	2,707,513
Net Assets - beginning				13,543,938	12,180,285	25,724,223
Net Assets - ending				\$ 16,018,552	\$12,413,184	\$ 28,431,736

The Notes to the Financial Statements are an integral part of this statement.

**Nephi City Corporation
Balance Sheet
Governmental Funds
June 30, 2005**

	General Fund	Capital Project Fund Airport Master Plan	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 385,622	\$ 549,145	\$ 1,635,597	\$2,570,364
Receivables:				
Other governments	-	-	26,680	26,680
Total assets	<u>\$ 385,622</u>	<u>\$ 549,145</u>	<u>\$ 1,662,277</u>	<u>\$2,597,044</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 17,657	\$ 6,789	\$ -	\$ 24,446
Deferred revenue	3,453	-	-	3,453
Total liabilities	<u>21,110</u>	<u>6,789</u>	<u>-</u>	<u>27,899</u>
Fund balances:				
Reserved for:				
Endowments	-	-	54,332	54,332
Industrial development	-	-	84,714	84,714
Designated for:				
Capital projects	-	542,356	1,523,231	2,065,587
Unreserved	364,512	-	-	364,512
Total fund balances	<u>364,512</u>	<u>542,356</u>	<u>1,662,277</u>	<u>2,569,145</u>
Total liabilities and fund balances	<u>\$ 385,622</u>	<u>\$ 549,145</u>	<u>\$ 1,662,277</u>	<u>\$2,597,044</u>

**Nephi City Corporation
Balance Sheet Reconciliation to
Statement of Net Assets
June 30, 2005**

Total fund balances - governmental fund types:	\$ 2,569,145
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	14,039,441
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(90,034)
Compensation received by the City for a 10 year oil and mineral lease is reported in the fund financial statements as revenue. In the government-wide financial statements, this revenue will be deferred and recognized over the life of the lease.	<u>(500,000)</u>
Net assets of government activities	<u>\$16,018,552</u>

Nephi City Corporation
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2005

	General Fund	Capital Project Fund Airport Master Plan	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	\$ 1,193,463	\$ -	\$ -	\$ 1,193,463
Licenses and permits	82,544	-	-	82,544
Intergovernmental revenue	218,141	2,362,999	134,489	2,715,629
Charges for services	137,063	-	-	137,063
Fines and forfeitures	109,982	-	-	109,982
Interest income	118,686	35,282	-	153,968
Miscellaneous	145,011	-	-	145,011
Contributions from other funds	685,500	-	-	685,500
Total revenues	<u>2,690,390</u>	<u>2,398,281</u>	<u>134,489</u>	<u>5,223,160</u>
EXPENDITURES				
Current:				
General government	628,371	-	55,803	684,174
Public safety	712,384	-	221,527	933,911
Highways and public improvements	263,540	2,623,266	156,804	3,043,610
Parks, recreation, and public property	526,319	-	72,062	598,381
Total expenditures	<u>2,130,614</u>	<u>2,623,266</u>	<u>506,196</u>	<u>5,260,076</u>
Excess revenues over (under) expenditures	<u>559,776</u>	<u>(224,985)</u>	<u>(371,707)</u>	<u>(36,916)</u>
Other financing sources (uses)				
Proceeds from sale of mineral rights	-	-	500,000	500,000
Transfers in	-	16,500	545,800	562,300
Transfers out	(562,300)	-	-	(562,300)
Total other financing sources and uses	<u>(562,300)</u>	<u>16,500</u>	<u>1,045,800</u>	<u>500,000</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>(2,524)</u>	<u>(208,485)</u>	<u>674,093</u>	<u>463,084</u>
Fund balances - beginning of year	<u>367,036</u>	<u>750,841</u>	<u>988,184</u>	<u>2,106,061</u>
Fund balances - end of year	<u>\$ 364,512</u>	<u>\$ 542,356</u>	<u>\$ 1,662,277</u>	<u>\$ 2,569,145</u>

Nephi City Corporation
Statement of Changes Reconciliation to
Statement of Activities
For the Year Ended June 30, 2005

Net changes in fund balances - total governmental funds	\$ 463,084
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	2,520,617
Governmental funds only report the disposal of fixed assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.	(3,035)
Bond proceeds and capital leases provide current financial resources to governmental funds by issuing debt which increases long-term liabilities in the Statement of Net Assets. Repayments of bond and capital lease principal are expenditures in the governmental funds, but reduce liabilities in the Statement of Net Assets:	
Payment of Bond and Note Principal	19,141
Compensation received by the City for a 10 year oil and mineral lease is reported in the fund financial statements as revenue. In the government-wide financial statements, this revenue will be recognized over the life of the lease.	(500,000)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	
Compensated Absences	(25,193)
Change in net assets of governmental activities	<u>\$ 2,474,614</u>

Nephi City Corporation
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances -- Budget and Actual
For the Year Ended June 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over(Under)
	Original	Final		
REVENUES				
Taxes	\$ 1,116,000	\$ 1,081,000	\$ 1,193,463	\$ 112,463
Licenses and permits	63,100	63,100	82,544	19,444
Intergovernmental revenue	232,500	232,500	218,141	(14,359)
Charges for services	138,550	138,550	137,063	(1,487)
Fines and forfeitures	105,400	105,400	109,982	4,582
Interest income	83,000	83,000	118,686	35,686
Miscellaneous	63,087	453,716	145,011	(308,705)
Contributions from other funds	685,500	685,500	685,500	-
Total revenues	<u>2,487,137</u>	<u>2,842,766</u>	<u>2,690,390</u>	<u>(152,376)</u>
EXPENDITURES				
Current:				
General government	697,743	697,743	628,371	(69,372)
Public safety	727,517	727,517	712,384	(15,133)
Highways and public improvements	298,727	298,727	263,540	(35,187)
Parks, recreation, and public property	557,349	557,349	526,319	(31,030)
Total expenditures	<u>2,281,336</u>	<u>2,281,336</u>	<u>2,130,614</u>	<u>(150,722)</u>
Excess revenues over (under) expenditures	<u>205,801</u>	<u>561,430</u>	<u>559,776</u>	<u>(1,654)</u>
Other financing sources (uses)				
Transfers out	(205,800)	(562,300)	(562,300)	(562,300)
Total other financing sources and uses	<u>(205,800)</u>	<u>(562,300)</u>	<u>(562,300)</u>	<u>(562,300)</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>1</u>	<u>(870)</u>	<u>(2,524)</u>	<u>(563,954)</u>
Fund balances - beginning of year	367,036	367,036	367,036	
Fund balances - end of year	<u>\$ 367,037</u>	<u>\$ 366,166</u>	<u>\$ 364,512</u>	<u>\$ (563,954)</u>

Nephi City Corporation
Statement of Net Assets
Proprietary Funds
June 30, 2005

	Business-Type Activities - Enterprise Funds				
	Water and Sewer Fund	Electric Fund	Natural Gas	Nonmajor Fund (Solid Waste)	Total
ASSETS					
Current assets:					
Cash and cash equivalents:					
Unrestricted	\$ 316,798	\$ 3,369,630	\$ 1,063,661	\$ 224,855	\$ 4,974,944
Designated	-	876,354	-	-	876,354
Restricted	10,990	110,015	-	-	121,005
Joint venture investment	-	196	-	-	196
Receivables:					
Utilities (net of allowance)	66,223	360,140	223,561	46,037	695,961
Other governments	-	-	167,952	-	167,952
Inventory	-	122,987	36,561	-	159,548
Total current assets	394,011	4,839,322	1,491,735	270,892	6,995,960
Noncurrent assets:					
Notes receivable from other funds	23,000	27,380	-	-	50,380
Property and Equipment:					
Land	289,097	83,906	-	13,758	386,761
Buildings and systems	5,635,901	4,457,728	4,602,517	2,808	14,698,954
Accumulated depreciation	(2,779,825)	(3,343,524)	(1,571,726)	(2,808)	(7,697,883)
Machinery and equipment	798,385	461,434	235,760	384,999	1,880,578
Accumulated depreciation	(219,019)	(392,380)	(161,597)	(313,590)	(1,086,586)
Net bond issue costs	-	-	47,599	-	47,599
Total noncurrent assets	3,747,539	1,294,544	3,152,553	85,167	8,279,803
Total assets	4,141,550	6,133,866	4,644,288	356,059	15,275,763
LIABILITIES					
Current liabilities:					
Accounts payable	3,646	187,562	195,148	19,132	405,488
Accrued interest payable	-	-	14,489	-	14,489
Customer utility deposits	10,990	110,015	-	-	121,005
Compensated absences payable	28,847	9,778	5,041	2,130	45,796
Current portion of bonds payable	-	-	260,000	-	260,000
Total current liabilities	43,483	307,355	474,678	21,262	846,778
Noncurrent liabilities:					
Advances to other funds	-	-	23,000	-	23,000
Net bond premium	-	-	8,458	-	8,458
Bonds payable	597,095	-	1,510,000	-	2,107,095
Net deferred refunding difference	-	-	(122,752)	-	(122,752)
Total noncurrent liabilities	597,095	-	1,418,706	-	2,015,801
Total liabilities	640,578	307,355	1,893,384	21,262	2,862,579
NET ASSETS					
Invested in capital assets, net of related debt	3,127,444	1,267,164	1,756,551	85,167	6,236,326
Retained Earnings:					
Designated for:					
Repair and replacement	-	876,354	-	-	876,354
Reserved for:					
Joint venture investment	-	196	-	-	196
Inventory	-	122,987	36,561	-	159,548
Unreserved	373,528	3,559,810	957,792	249,630	5,140,760
Total net assets	\$ 3,500,972	\$ 5,826,511	\$ 2,750,904	\$ 334,797	\$ 12,413,184

Nephi City Corporation
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2005

	Business-Type Activities - Enterprise Funds				Total Business Type
	Water and Sewer	Electric Fund	Natural Gas	Nonmajor Fund (Solid Waste)	
Operating revenues:					
Charges for sales and services	\$ 635,012	\$ 2,809,391	\$ 2,709,392	\$ 325,422	\$ 6,479,217
Miscellaneous	6,775	22,978	5,415	167	35,335
Total operating revenues	<u>641,787</u>	<u>2,832,369</u>	<u>2,714,807</u>	<u>325,589</u>	<u>6,514,552</u>
Operating expenses:					
Employee salaries	189,873	211,419	150,678	30,480	582,450
Employee benefits	96,519	99,700	88,563	21,696	306,478
Contractual services	47,785	1,697	95,120	199,701	344,303
Supplies	7,380	27,152	1,235	1,427	37,194
Materials	17,637	51,331	56,364	-	125,332
Administrative charges	61,500	472,000	60,427	20,250	614,177
Fuel and oil	981	-	3,897	7,734	12,612
Repairs and maintenance	9,644	15,251	4,770	11,125	40,790
Depreciation and amortization	144,657	156,522	163,139	25,962	490,280
Power and natural gas purchases	-	1,981,161	1,729,868	-	3,711,029
Miscellaneous	2,469	22,088	3,490	101	28,148
Total operating expenses	<u>578,445</u>	<u>3,038,321</u>	<u>2,357,551</u>	<u>318,476</u>	<u>6,292,793</u>
Operating income	<u>63,342</u>	<u>(205,952)</u>	<u>357,256</u>	<u>7,113</u>	<u>221,759</u>
Nonoperating revenues (expenses):					
Interest revenue	12,889	102,742	21,716	5,558	142,905
Interest expense and fiscal charges	(32,670)	-	(99,095)	-	(131,765)
Total nonoperating revenues (expenses)	<u>(19,781)</u>	<u>102,742</u>	<u>(77,379)</u>	<u>5,558</u>	<u>11,140</u>
Income (loss) before transfers	43,561	(103,210)	279,877	12,671	232,899
Change in net assets	43,561	(103,210)	279,877	12,671	232,899
Total net assets - beginning	3,457,411	5,929,721	2,471,027	322,126	12,180,285
Total net assets - ending	<u>\$ 3,500,972</u>	<u>\$ 5,826,511</u>	<u>\$ 2,750,904</u>	<u>\$ 334,797</u>	<u>\$ 12,413,184</u>

Nephi City Corporation
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2005

	Business-Type Activities - Enterprise Funds				
	Water and Sewer	Electric	Natural Gas	Nonmajor (Solid Waste)	Total
Cash Flows From Operating Activities					
Receipts from customers	\$ 651,073	\$ 2,828,600	\$ 2,838,314	\$ 327,311	\$ 6,645,298
Miscellaneous receipts	9,775	42,119	5,415	167	57,476
Payments to suppliers	(185,816)	(2,541,639)	(1,917,946)	(235,561)	(4,880,962)
Payments to employees	(286,392)	(311,119)	(239,241)	(52,176)	(888,928)
Net cash provided (used) by operating activities	188,640	17,961	686,542	39,741	932,884
Cash Flows From Noncapital Financing Activities					
Net cash provided (used) by noncapital financing activities	-	-	-	-	-
Cash Flows From Capital and Related Financing Activities					
Purchases of capital assets	(184,764)	-	(2,454)	(8,310)	(195,528)
Principal paid on capital debt	(94,779)	-	(253,000)	-	(347,779)
Interest paid on capital debt	(32,670)	-	(99,095)	-	(131,765)
Net cash provided (used) by capital and related financing activities	(312,213)	-	(354,549)	(8,310)	(675,072)
Cash Flows From Investing Activities					
Interest and dividends received	12,889	102,742	20,307	5,558	141,496
Net cash provided (used) by investing activities	12,889	102,742	20,307	5,558	141,496
Net increase (decrease) in cash and cash equivalents	(110,684)	120,703	352,300	36,989	399,308
Cash and cash equivalents, July 1	438,472	4,235,296	711,361	187,866	5,572,995
Cash and cash equivalents, June 30	\$ 327,788	\$ 4,355,999	\$ 1,063,661	\$ 224,855	\$ 5,972,303
Reconciliation of operating income to net cash provided (used) by operating activities:					
Operating income	\$ 63,342	\$ (205,952)	\$ 357,256	\$ 7,113	\$ 221,759
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation and amortization expense	144,657	156,522	163,139	25,962	490,280
Decrease (increase) in accounts receivable	16,061	19,209	128,922	1,889	166,081
Decrease (increase) in inventory	-	2,916	-	-	2,916
Decrease (increase) in notes receivable from other funds	3,000	19,141	-	-	22,141
Increase (decrease) in accounts payable	(38,420)	26,125	37,225	4,777	29,707
Total adjustments	125,298	223,913	329,286	32,628	711,125
Net cash provided (used) by operating activities	\$ 188,640	\$ 17,961	\$ 686,542	\$ 39,741	\$ 932,884

Nephi City Corporation
Statement of Fiduciary Net Assets
Agency Fund
For the Year Ended June 30, 2005

	<u>Justice Court</u>
ASSETS	
Cash and cash equivalents	\$ 11,923
Total Assets	<u>\$ 11,923</u>
 LIABILITIES	
Accounts payable	\$ 10,228
Bail Bonds payable	1,695
Total Liabilities	<u>\$ 11,923</u>

CITY OF NEPHI, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

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CITY OF NEPHI, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. For enterprise funds, GASB Statement Nos. 20 and 34 provide the City the option of electing to apply FASB pronouncements issued after November 30, 1989. The City has elected not to apply those pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

1.A. FINANCIAL REPORTING ENTITY

Nephi City is a political subdivision of the State of Utah. The City is governed by a mayor and an elected board of five council members. The financial statements of Nephi City include those of separately administered organizations that are controlled by or are dependent on the City. Control or dependence is determined on the basis of financial interdependence, selection of governing authority, designation of management ability to significantly influence operations and accountability for fiscal matters. Using these criteria no potential component units are included in the City's financial statements.

The accounting policies of the City of Nephi, Utah, conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the more significant of such policies.

The City's financial reporting entity comprises the following:

Primary Government:	City of Nephi
Component Units:	None

1.B. BASIS OF PRESENTATION

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

CITY OF NEPHI, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund

The General Fund is the primary operating fund of the City and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for certain purposes.

Capital Project Fund

The Capital Project Fund is used to account for resources restricted for the acquisition or construction of specific capital projects or items. The reporting entity includes only one Capital Project Fund and it is used to account for the acquisition of capital assets with transfers made from the General Fund.

Permanent Fund

The Permanent Fund accounts for assets held by the City pursuant to a trust agreement. The principle portion of this fund type must remain intact, but the earnings may be used to achieve the objectives of the fund.

Proprietary Fund

Enterprise Fund

Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the

CITY OF NEPHI, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes the Water, Sewer and Electric funds.

Major and Nonmajor Funds

The funds are further classified as major or non-major as follows:

<i>Fund</i>	<i>Brief Description</i>
Major:	
General Fund	See above for description.
Capital Projects Fund	
Airport	Accounts for revenues and expenditures on capital projects such as an airport.
Proprietary Fund	
Water, Sewer, Electric and Gas	Accounts for revenues and expenditures of the water, sewer, electric and gas
Nonmajor:	
Proprietary Fund	
Landfill	Accounts for revenues and expenditures of the landfill.
Special Revenue Fund	
Industrial Development	Accounts for revenues and expenditures for funds such as redevelopment
Permanent Fund	
Justice Court	legally restricted so that only earnings and not principal may be used for operations.
Cemetery Perpetual Care	This fund includes resources that are legally restricted so that only earnings and not principal may be used for

1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus as defined in item b. below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

CITY OF NEPHI, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

- a. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.
- c. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

1.D. ASSETS, LIABILITIES, AND EQUITY

Cash and Investments

For the purpose of the Statement of Net Assets, "cash, including time deposits" includes all demand, savings accounts, and certificates of deposits of the City. For the purpose of the proprietary fund Statement of Cash Flows, "cash and cash equivalents" include all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less. Investments of the promissory note trustee accounts are not considered cash equivalents.

CITY OF NEPHI, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Investments are carried at fair value except for short-term U.S. Treasury obligations with a remaining maturity at the time of purchase of one year or less. Those investments are reported at amortized cost. Fair value is based on quoted market price. Additional cash and investment disclosures are presented in Notes 2.C. and 3.A.

Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds." Short-term interfund loans are reported as "interfund receivables and payables." Long-term interfund loans (noncurrent portion) are reported as "advances from and to other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. See Note 3.G. for details of interfund transactions, including receivables and payables at year-end.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include sales and use taxes, franchise taxes, grants, police fines, and ambulance fees. Business-type activities report utilities and interest earnings as their major receivables.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as sales tax, franchise tax, and grants and other similar intergovernmental revenues since they are usually both measurable and available. Non-exchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the government-wide financial statements in accordance with the accrual basis. Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available. Proprietary fund material receivables consist of all revenues earned at year-end and not yet received. Utility accounts receivable and interest earnings compose the majority of proprietary fund receivables. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

Inventories

Inventory is valued at the lower of cost or market value and the City uses the first-in, first-out (FIFO) flow assumption determined by the moving weighted average method. The cost is recorded as an expenditure at the time individual inventory items are purchased. Reported inventories are equally offset by a fund balance reserve, which indicates that they do not constitute available spendable resources even though they are a component of net current assets.

Fixed Assets

The accounting treatment over property, plant, and equipment (fixed assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

CITY OF NEPHI, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Government-wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation. Estimated historical cost was used to value the majority of the assets acquired prior to June 30, 2005.

Prior to July 1, 2003, not all governmental funds' infrastructure assets were not capitalized. The City's streets and right of way assets are now capitalized and included as part of the governmental funds' infrastructure assets. The City has capitalized road improvements and road rehabilitation over the past 16 years as the value of its roads. Historical values for the City's other infrastructure have been determined by calculating length, miles, or acres and then using an average cost factor to determine the historical value to be capitalized as the value for the infrastructure.

The condition of road pavement is measured using the AASHTO pavement management system, which is based on stress factors found in pavement surfaces. The AASHTO pavement management system uses a measurement scale that is based on a condition index ranging from zero for a failed pavement to 100 for a pavement in perfect condition. The condition index is used to classify roads in good condition (70-100), fair (50-69), and substandard condition (less than 50). It is the City's policy to maintain at least 60 percent of its road system at a good or better condition level. No more than 15 percent should be in substandard condition. Condition assessments are determined every year.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets.

Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Description	Governmental Activities Estimated Lives	Business-Type Activities Estimated Lives
Buildings and Improvements	45 years	45 years
Machinery and Equipment	10 to 15 years	10-15 years
Vehicles	6 years	6 years
Infrastructure	65 years	65 years

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

CITY OF NEPHI, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Restricted Assets

Restricted assets consist of various cash balances that are restricted as to their use. Certain cash balances are restricted by provisions of the bond resolutions. These include the bond, and emergency repairs accounts in the enterprise funds. Customer deposits are also restricted in the enterprise funds. Amounts are held in the fund for future burial and cemetery costs. Class C Road revenue not spent is restricted in the general fund to be used for future roadwork and funds are held for the fire department to be used for future expenditures.

Long-term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of notes payable, accrued compensated absences, and a court-assessed judgment.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principle and interest reported as expenditures. The accounting for proprietary fund is the same in the fund statements as it is in the government-wide statements.

Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. No liability is reported for unpaid accumulated sick leave. Vacation pay is accrued when incurred in proprietary funds and reported as a fund liability. Vacation pay that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts not expected to be liquidated with expendable available financial resources are reported in the general long-term debt account group. No expenditure is reported for these amounts.

Equity Classifications

Government-wide Statements

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt—Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets—Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

CITY OF NEPHI, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

- c. Unrestricted net assets—All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”
Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated. Proprietary fund equity is classified the same as in the government-wide statements. See Note 3.H. for additional disclosures.

1.E. REVENUES, EXPENDITURES, AND EXPENSES

Property Tax

Property taxes, franchise taxes, licenses, interest and special assessments are susceptible to accrual. Sales taxes collected and held by the state at year end on behalf of the City are also recognized as revenue. Other receipts and taxes become measurable and available when cash is received by the City and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

Property taxes are based on the assessments against property owners. Tax levies on such assessed values are certified to Juab County prior to the commencement of the fiscal year. Property taxes become a lien on January 1 and are levied on the first Monday in August. Taxes are due and payable on November 1, and are delinquent after November 30 of each year. Property taxes are collected by the Juab County Treasurer and remitted to the City shortly after collection.

Sales taxes are collected by the Utah State Tax Commission and are remitted to the City monthly.

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified as follows:

Governmental Funds—By Character:

Current (further classified by function)

Debt Service

CITY OF NEPHI, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Capital Outlay

Proprietary Fund—By Operating and Non-operating

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

Interfund Transfers

Permanent reallocation of resources between funds of the reporting entity are classified as interfund transfers. For the purposes of the Statement of Activities, all interfund transfers between individual governmental funds have been eliminated.

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

By its nature as a local government unit, the City is subject to various federal, state, and local laws and contractual regulations. An analysis of the City's compliance with significant laws and regulations and demonstration of its stewardship over City resources follows.

2.A. FUND ACCOUNTING REQUIREMENTS

The City complies with all state and local laws and regulations requiring the use of separate funds. The legally required funds used by the City include the following:

<u>Fund</u>	<u>Required By</u>
Cemetery Perpetual Care Fund	State Law

2.B. DEPOSITS AND INVESTMENTS LAWS AND REGULATIONS

The City maintains a cash and investment pool that is available for use by all funds. In addition, investments are separately held by several of the City funds. Deposits are not collateralized, nor are they required to be by State statute.

The City follows the requirements of the Utah Money Management Act (Utah Code Annotated 1953, Section 51, Chapter 7) in handling its depository and temporary investment transactions. This law requires the deposit of City funds in a "qualified depository." The Act defines a "qualified depository" as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Utah Money Management Act and adhering to the rules of the Utah Money Management Council.

The Utah Money Management Act also defines the types of securities allowed as appropriate temporary investments for the City and the conditions for making investment transactions.

CITY OF NEPHI, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Investment transactions are to be conducted through qualified depositories or primary reporting dealers.

Certain assets are restricted by provisions of the revenue bond resolutions. The resolutions also describe how these restricted assets may be deposited and invested. Restricted cash may only be deposited in state or national banks meeting certain minimum net worth requirements or invested in securities representing direct obligations of or obligations guaranteed by the U.S. government, agencies of the U.S. government, any state within the territorial United States of America, repurchase agreements or interest bearing time deposits with state or national banks meeting certain minimum net worth requirements, or certain other investments.

The City's investments are categorized as follows to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealers trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agency, but not in the City's name. The City currently has no investments that are required to be categorized.

The Utah Public Treasurers' Investment Fund (PTIF) is an external deposit and investment pool wherein governmental entities are able to pool the moneys from several entities to improve investment efficiency and yield. These moneys are invested primarily in money market securities and contain no withdrawal restrictions. As such, the moneys invested in this fund are not insured and are subject to the same market risks as any similar investment in money market funds.

2.C. REVENUE RESTRICTIONS

The City has various restrictions placed over certain revenue sources from state or local requirements. The primary restricted revenue sources include:

<u>Revenue Source</u>	<u>Legal Restrictions of Use</u>
Sales Tax Revenue	See Note 1.E.
Water, Sewer, Electric and Gas Revenue	Debt Service and Utility Operations
Cemetery Revenue	Perpetual Care
B & C Road Revenues	Eligible B & C Roads
State Liquor Revenues	State Law
Grant Revenues	Grant Requirements

For the year ended June 30, 2005, the City complied, in all material respects, with these revenue restrictions.

CITY OF NEPHI, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

2.D. DEBT RESTRICTIONS AND COVENANTS

General Obligation Debt

No debt in excess of total revenue for the current year shall be created by any city unless the proposition to create such debt shall have been submitted to a vote of qualified electors. Cities shall not contract for debt to an amount exceeding four percent of the fair market value of taxable property in their jurisdictions. For the year ended June 30, 2005, the City had \$64,840 of outstanding general obligation debt.

Other Long-term Debt

Cities may incur a larger indebtedness for the purpose of supplying such city water, sewer, or electricity when such public works are owned and controlled by the municipality. The additional indebtedness shall not exceed four percent for first and second class cities and eight percent for third class cities. For the year ended June 30, 2005, the City had \$2,367,095 of such indebtedness.

Notes Payable

The various loan agreements relating to the notes payable issuances contain some restrictions or covenants that are financial related. These include covenants such as debt service coverage requirement and required reserve account balances. The following schedule presents a brief summary of the most significant requirements and the Authority's level of compliance thereon as of June 30, 2005.

Requirement

Level of Compliance

a. Note Payable Coverage:

1. Net gas operating revenues (excluding depreciation) must equal 1.25 times the annual debt service plus the unfunded portion of the Debt Service Reserve Requirement to be due and payable for the forthcoming year on the 1997 Gas Refunding Bonds.

2.E. FUND EQUITY RESTRICTIONS

Deficit Prohibition

Utah Code 10-6-116(4) indicates the only the "fund balance in excess of 5% of total revenues of the general fund may be utilized for budget purposes." The remaining 5% must be maintained as a minimum fund balance. The maximum in the general fund may not exceed 18% of the total estimated revenue of the general fund. (10-6-116(2)) The City did not have any deficit equity balances in any of their funds at June 30, 2005.

2.F. BUDGETARY BASIS OF ACCOUNTING

While the City is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as

CITY OF NEPHI, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, equity, revenues, and expenditures/expenses.

3.A. CASH AND INVESTMENTS

Deposits

As of June 30, 2004 and 2005, bank balances totaled \$544,689 and \$293,781 respectively. The carrying amount on the City's books was \$143,650 and \$109,253 respectively. These deposits were covered by Federal Depository Insurance up to \$100,000 as of June 30, 2004 and up to \$100,000 as of June 30, 2005.

Investments

The City has investments with the Utah Public Treasurers' Fund (PTIF) which are not subject to categorization. The carrying amount and market value of the investments at June 30, 2004 and 2005 were \$7,670,376 and \$8,445,160 respectively.

The City's policies regarding deposits of cash are discussed in Note 1.E. The table presented below is designed to disclose the level of custody credit risk assumed by the City based upon how its deposits were insured or secured with collateral at June 30, 2005. The categories of credit risk are defined as follows:

Category 1—Insured by FDIC or collateralized with securities held by the City (or public trust) or by its agent in its name

Category 2—Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the City's name

Category 3—Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the City's name; or collateralized with no written or approved collateral agreement.

CITY OF NEPHI, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

The City currently has no investments that are required to be categorized. Investments not subject to categorization at June 30, 2005, were as follows:

Investments in Utah State Treasurers' Investment Fund	\$ 8,445,160
-------------------------------------------------------	--------------

Reconciliation to Government-wide Statement of Net Assets:

Investments	\$ 8,445,160
Cash on Hand	175
Deposits	<u>97,332</u>
Total	<u><u>\$ 8,542,667</u></u>

Per Statement of Net Assets:

Unrestricted Cash	\$ 8,421,662
Restricted Cash	<u>121,005</u>
Total	<u><u>\$ 8,542,667</u></u>

CITY OF NEPHI, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

3.B. RESTRICTED ASSETS

The restricted assets as of June 30, 2005, are as follows:

<u>Type of Restricted Asset</u>	<u>Cash/Time Deposits</u>	<u>Investments</u>	<u>Accrued Int.</u>	<u>Total</u>
Business-Type Activities:				
Customer Deposits	\$ 121,005	\$ -	\$ -	\$ 121,005
Total	121,005	-	-	121,005
Governmental Activities:				
	-	-	-	-
Total	-	-	-	-
Grand Totals	\$ 121,005	\$ -	\$ -	\$ 121,005

3.C. ACCOUNTS RECEIVABLE

Accounts receivable of the business-type activities consist of utilities receivable from the water, sewer, electric, natural gas, and landfill utilities. Accounts receivable of the governmental activities consist of Juab & Millard Task Force grant monies, and School Reserve Officers grant monies receivables. Receivables detail at June 30, 2005, is as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Accounts Receivable	\$ 26,680	\$ 898,913	\$ 925,593
Allowance for Doubtful Accounts		(35,000)	(35,000)
Net Accounts Receivable	\$ 26,680	\$ 863,913	\$ 890,593

CITY OF NEPHI, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

3.D. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005, was as follows:

	Balance at July 1, 2004	Additions	Disposals	Balance at June 30, 2005
Governmental Activities:				
Land	\$ 345,645	\$ -	\$ -	\$ 345,645
Buildings	271,461	-	-	271,461
Improvements	665,397	-	-	665,397
Machinery & Equipment	2,004,936	43,265	(125,861)	1,922,340
Infrastructure	9,907,881	2,623,266	-	12,531,147
Totals at historical cost	13,195,320	2,666,531	(125,861)	15,735,990
Less Accum. Depreciation				
Buildings	(60,788)	(11,895)		(72,683)
Improvements	(130,692)	(19,936)	-	(150,628)
Machinery & Equipment	(1,481,981)	(114,082)	122,825	(1,473,238)
Total Accum. Depreciation	(1,673,461)	(145,914)	122,825	(1,696,550)
Governmental Activities capital assets, net	<u>\$ 11,521,859</u>	<u>\$ 2,520,617</u>	<u>\$ (3,036)</u>	<u>\$ 14,039,440</u>
Business-type activities:				
Land	\$ 386,760	\$ -	\$ -	\$ 386,760
Buildings	14,365,001	296,195	-	14,661,196
Machinery & Equipment	1,944,821	12,059	(38,542)	1,918,338
Construction in Progress	111,430	19,743	(131,173)	-
Totals at historical cost	16,808,012	327,997	(169,715)	16,966,294
Less Accum. Depreciation				
Buildings	(7,329,629)	(368,254)	-	(7,697,883)
Machinery & Equipment	(1,029,016)	(93,633)	36,062	(1,086,587)
Total Accum. Depreciation	(8,358,645)	(461,887)	36,062	(8,784,470)
Business-type activities capital assets, net	<u>\$ 8,449,367</u>	<u>\$ (133,890)</u>	<u>\$ (133,653)</u>	<u>\$ 8,181,824</u>

CITY OF NEPHI, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Depreciation expense was charged to governmental activities as follows:

General government:	
General government	\$ 30,859
Public Safety	28,025
Highways & Public Improvements	20,107
Parks & Recreation	66,923
Total depreciation expense	<u>\$145,914</u>

3.E. ACCOUNTS PAYABLE

Payables in the general fund and non-major governmental funds are composed of various vendor payables and payroll payables such as FICA Payable, Federal & State Withholdings and Workers Compensation Payable. Payables in the business-type funds are composed of various vendor payables and accrued interest payable for the bonds.

3.F. LONG-TERM DEBT

The reporting entity's long-term debt is segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities.

Governmental Activities:

As of June 30, 2005, the City had \$90,034 governmental long-term debt.

CITY OF NEPHI, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Business-type Activities:

As of June 30, 2005, the long-term debt payable from proprietary fund resources consisted of the following:

General Obligation & Revenue Bonds:

Community Impact Sewer Bond, Dated July 1, 1983 4.5%, (original amount \$1,300,000)	\$ 314,422
Community Impact Water Bond, Dated July 1, 1983 5%, (Original amount \$611,500)	282,673
General Obligation Natural Gas Refunding Bonds, Dated August 15, 1997 4.15% to 5.15%, (Original amount \$2,995,000)	1,770,000
Total Business-type debt	<u>\$ 2,367,095</u>

Changes in Long-term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2005:

Type of Debt	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
Due Within One Year	\$ 250,000	\$ 10,000		\$ 260,000
Business-Type Activities:				
Notes Payable	2,461,874		(354,779)	2,107,095
Total Enterprise Fund Debt	<u>\$ 2,711,874</u>	<u>\$ 10,000</u>	<u>\$ (354,779)</u>	<u>\$ 2,367,095</u>

The revenue bonds are payable only from the net revenues of the water and sewer system, as defined in the bond ordinances. The ordinances further provide that the City establish certain accounts and reserves for bond payment and that all revenues of the system are to be used for operation and maintenance costs of the systems, principal and interest on the bonds, and establishment of the defined debt repayment reserves.

CITY OF NEPHI, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Annual Debt Service Requirements

The annual debt service requirements to maturity, including principal and interest, for long-term debt as of June 30, 2005, are as follows:

Year Ending June 30	Business-type Activities Notes Payable	
	Principal	Interest
2006	359,159	115,226
2007	378,750	98,415
2008	398,553	80,549
2009	413,536	61,458
2010	346,168	41,349
2011-2014	470,936	35,053
Total	<u>\$ 2,367,102</u>	<u>\$ 432,050</u>

3.G. INTERFUND TRANSACTIONS AND BALANCES

Operating Transfers:

Fund	Transfers Out	Transfers In
General Fund	\$ 562,300	
Capital Projects Fund		\$ 562,300

Administration Charges, General Services, And Contributions From Other Funds

Administrative charges in the enterprise funds represent payments to the general fund to compensate for billing and administrative services provided by City personnel.

General services in the enterprise funds represent payments to the general fund for equipment and operating services provided by other City departments.

Contributions from other funds are administrative charges and general services paid by the enterprise funds and are reported as revenue in the general fund.

CITY OF NEPHI, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Administrative Charges:

	Administrative Charges Paid	Administrative Charges Received
Water/Sewer Admin	\$ -	\$ 61,500
Water/Sewer Chrg for Srvc	-	31,500
Electric Admin.	-	354,000
Electric Charge for Srvc.	-	118,000
Garbage Admin.	-	20,250
Garbage Fee for Srvc.	-	10,250
Natural Gas Administration Charge	-	60,000
Natural Gas Charges for Service	-	30,000
Water Admin. Charges	41,500	-
Water Charge for Service	21,500	-
Sewer Admin. Charges	20,000	-
Sewer Charge for Service	10,000	-
Electric Admin. Charges	354,000	-
Electric Charge for Services	118,000	-
Natural Gas Administration Charge	60,000	-
Natural Gas Charges for Service	30,000	-
Collection Administrative Charges	13,750	-
Collection Charges for Services	6,750	-
Disposal Admin. Charges	6,500	-
Disposal Charges for Services	3,500	-
Total Administrative Charges	<u>\$ 685,500</u>	<u>\$ 685,500</u>

The City had the following interfund receivable and payable balances as of June 30, 2005:

	Receivable	Payable
Water and Sewer Fund	\$ 23,000	\$ -
Electric Fund	15,031	
Natural Gas Fund		23,000
General Long-Term Debt		15,031
Totals	<u>\$ 38,031</u>	<u>\$ 38,031</u>

CITY OF NEPHI, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

3.H. FUND EQUITY

Restricted Fund Equity

	Government Activities	Business-Type Activities	Totals
Net Assets			
Invested in capital assets, net of related debt	\$ 14,012,061	\$ 6,074,729	\$ 20,086,790
Restricted for:			
Endowments	54,332		54,332
Unrestricted	1,464,922	6,338,455	7,803,377
Total Net Assets	\$ 15,531,315	\$ 12,413,184	\$ 27,944,499

NOTE 4. OTHER NOTES

4A. EMPLOYEE PENSION AND OTHER BENEFIT PLANS

The City participates in the following employee pension systems:

Local Governmental - Cost Sharing Defined Benefits Pension Plans

Plan Description. The City contributes to the Local Governmental Noncontributory Retirement System (Noncontributory System), and the Public Safety Retirement System (Public Safety System) for employers with (without) Social Security coverage, all of which are cost-sharing, multiple-employer defined benefit pensions plans administered by the Utah Retirement Systems (Systems). The Systems provide, retirement benefits, annual cost of living allowances, death benefits and refunds to plan members and beneficiaries in accordance with retirement statutes established and amended by the State Legislature.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 (Chapter 49) as amended, which also establishes the State Retirement Office (Office) for the administration of the Utah retirement Systems and Plans. Chapter 40 places the Systems, the Office and related plans and programs under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Systems and Plans. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, Utah 84102 or by calling 1-800-365-8772.

Funding Policy. The City is required to contribute a percentage of covered salary to the respective systems, 11.09%. The contribution rates are the actuarially determined rates and are approved by the Board as authorized by Chapter 49.

CITY OF NEPHI, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

The City contributions to the various systems for the years ending June 30, 2005, 2004, and 2003 were; for the Noncontributory System \$129,072, \$104,915, and \$88,162, and for the Public Safety Noncontributory System, \$66,872, \$54,791, and \$43,210, respectively. The contributions were equal to the required contributions for each year.

401(k) Plan

The employees of Nephi City also participate in a 401(k) deferred compensation plan through the Utah Retirement Systems. No contributions were made by Nephi City for employees.

Nephi City also has a supplemental retirement plan outside of the Utah Retirement System into which the City makes contributions in behalf of employees. The contribution rate is the difference between 18.14% and the contribution rate required by the Utah Local Governmental Noncontributory Retirement System.

457 Deferred Compensation

The Utah Retirement Systems (URS) have adopted Governmental Accounting Standards Board Statement 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. This resulted in reporting the 457 Plans as a "Trust Fund" of URS rather than previously reported as an "Agency Fund" of Nephi City. The assets and income of the 457 Plan are held in trust for the exclusive benefit of the participants or their beneficiaries and are not the assets of the employer.

4.B. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has purchased comprehensive general liability insurance through the Utah Local Governments Trust. The City pays premiums to the Trust for its general insurance coverage, automobile liability, and personal injury protection. The Trust is self-sustaining through member premiums. The City is subject to a minimal deductible for claims.

4.C. JUAB RURAL DEVELOPMENT AGENCY

During 1991 the City of Nephi entered in an interlocal agreement with Juab County, Levan, and Mona to create the Juab Rural Development Agency. The purpose of the Agency was to provide for the joint and coordinated funding, construction, and operation of a natural gas transmission line and separate municipal delivery systems to service the municipalities of Nephi, Levan, and Mona. Each municipality operates and owns its own distribution system as well as an undivided interest in the main transportation line.

In September of 1996, the City of Nephi transferred the City landfill to the Juab Rural Development Agency. Juab County agreed to act as agent for the landfill. The County

CITY OF NEPHI, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

maintains the operating records and bank accounts and is responsible for the daily operation of the landfill in accordance with local, state, and federal ordinances, statutes, rules, and regulations. Waste collection, billing, and collection of landfill fees, is performed by the individual members with fees being remitted to the County. The Agency has assumed the responsible for all closure and post-closure costs of the landfill site. The Agency's financial information is reported as part of Juab County's financial statements.

4.D. INVESTMENT IN JOINT VENTURE

In September, 1980, Nephi City joined with seven other municipalities to create the Utah Municipal Power Agency (UMPA). UMPA was created under the Interlocal Co-operation Act to evaluate, finance, construct and operate facilities for the generation, transmission, and distribution of electric power for governmental units and their citizens and customers.

During September, 1985, Payson City and Springville City withdrew from UMPA, thus increasing the remaining members' percentage of assets, liabilities, and equity. The remaining UMPA members and their respective percentages of ownership are as follows:

	<u>Percentage</u>
Manti City Corporation	2.164%
Nephi City Corporation	5.839
Provo City Corporation	80.540
Salem City Corporation	1.446
Spanish Fork City Corporation	9.409
Town of Levan	<u>0.602</u>
	<u>100.000%</u>

UMPA is governed by a Board of Directors. Each member appoints one director to the Board. All decisions of the Board are made by majority vote, except in specific decisions as described in the Interlocal Co-operation Agreement where votes shall be by number of megawatt hours sold.

Audited financial statements for UMPA are available at UMPA's office. UMPA bills members at rates sufficient to cover the costs of operating and maintaining the Agency and the costs of debt service, but not items such as depreciation and amortization. Thus, any gain or loss results in a decrease or increase in subsequent billings to the members, rather than increasing or decreasing member's equity as would normally be expected. The current member's equity only reflects the original investment from members, less the amount returned to Payson City and Springville City at the time of their withdrawal.

4.E. ADVANCE REFUNDING RESULTING IN DEFEASANCE OF DEBT

On August 15, 1997, the City issued \$2,995,000 in Natural Gas General Obligation Bonds with an average interest rate of 4.65 percent to advance refund the \$2,300,000 outstanding Natural Gas General Obligation Bonds, Series May 1, 1991, with an average interest rate of 7.05 percent and \$315,000 of the \$1,870,000 Natural Gas Revenue Bonds

CITY OF NEPHI, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Series May 1, 1991. The net proceeds of \$2,903,127 (after payment of \$111,726 in underwriting fees, bond insurance premium, and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the Series 1991 general obligation bonds. On May 1, 2001 the Series 1991 bonds matured and were paid in full from escrow deposits. As a result, the Series 1991 bonds are considered to be defeased and the liability for those bonds has been removed from the Natural Gas Enterprise Fund.

The City advance refunded the Series 1991 bonds to reduce its total debt service payments over the next thirteen years by \$192,009 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$168,307.

The difference between the amount of net proceeds placed in escrow and the net carrying amount of the old debt has been recorded as "Net Deferred Refunding Difference" on the balance sheet and will be amortized as a component of interest expense over the remaining life of the new debt.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF NEPHI, UTAH
INFORMATION FOR INFRASTRUCTURE ASSETS
USING THE MODIFIED APPROACH
JUNE 30, 2005

As allowed by GASB 34, Nephi City has adopted an alternative to reporting depreciation on roads (infrastructure assets) maintained by the Public Works Department. Under the modified approach, infrastructure assets are not depreciated and maintenance and preservation costs are expensed.

Infrastructure assets that are part of a network are not required to be depreciated as long as the following requirements are met:

- The assets will be managed using an asset management system
- Document that the eligible infrastructure assets are being preserved approximately at (or above) the condition level as disclosed below

The asset management system will provide:

- An up-to-date inventory of eligible infrastructure assets
- Perform condition assessments of the eligible infrastructure assets and summarize the results using a measurement scale at least every three years
- Estimate yearly the annual amount of funds needed to maintain and preserve the eligible infrastructure assets at the condition level established
- The results of the three most recent complete condition assessments provide reasonable assurance that the eligible infrastructure assets are being preserved at the disclosed level
- All expenditures, except for additions and improvements, made for the eligible infrastructure assets will be expensed in the period incurred
- Additions and improvements to the eligible infrastructure assets will be capitalized, as they increase the capacity or efficiency of the asset rather than preserve the useful life of the asset

Roads

Nephi City will utilize the Pavement Management System to determine the condition of the city roads. The assessment is based on the Ride Index, which is a measurement of ride quality on a scale of 1-5, with 5 representing new or nearly new pavement.

Category	Range	Description
Good	3.55 – 4.34	Pavements, which provide an adequate, ride, and exhibit few, if any, visible signs of distress.
Fair	2.75 – 3.54	Surface defects in this category such as cracking, rutting, and raveling are affecting the ride.
Poor	1.85 – 2.74	These roadways have deteriorated to such an extent that they are in need of resurfacing and the ride is noticeably rough.
Very Poor	1.00 – 1.84	Pavements in this category are severely deteriorated, and the ride quality must be improved.

CITY OF NEPHI, UTAH
INFORMATION FOR INFRASTRUCTURE ASSETS
USING THE MODIFIED APPROACH (CONCLUDED)
JUNE 30, 2005

Condition Level

Nephi City's condition level is to maintain 50% of the roads with a rating of "fair" or better and no more than 15% with a rating of "poor-very poor." All city roads are chip sealed on a rotating basis, with 1/3 of the city streets done in a given year, and the rotation started every four to five years. The whole city had roads chip sealed between the years 2000, 2001, and 2002.

Complete assessments of the roads are performed on a fiscal year basis. The following chart shows the results of the pavement ratings for the last three years:

Rating	2005	2004	2003
Fair or Better	95	95	95
Poor - Very Poor	5	5	5

The following table shows the estimated amounts needed to maintain and preserve the roads at or above the established condition levels addressed above, and the amounts actually spent for each of the last three fiscal years.

Fiscal Year	Estimated Spending	Actual Spending
2005	325,000.00	156,804.00
2004	340,412.00	282,923.00
2003	365,619.00	414,448.00
2002	377,746.00	77,687.00

SUPPLEMENTARY INFORMATION

Nephi City Corporation
Combining Balance Sheet for Nonmajor Funds (continued on following page)
June 30, 2005

	Capital Improvements Funds											
	Drainage and Flood	Street Improvement	Street Rehabilitation	Library Grants	Recreation Improvement	Public Works Building	Cemetery Projects	Urban Forestry	Parks Development	Downtown Projects	City Hall Projects	Animal Shelter
ASSETS												
Cash and cash equivalents	\$ 494,981	\$ 591,732	\$ 61,210	\$ 5	\$ 86,601	\$ 100	\$ 24,000	\$ 1,968	\$ 51,142	\$ 3,868	\$ 17,219	\$ 9,804
Receivables:												
Other governments												
Total assets	<u>\$ 494,981</u>	<u>\$ 591,732</u>	<u>\$ 61,210</u>	<u>\$ 5</u>	<u>\$ 86,601</u>	<u>\$ 100</u>	<u>\$ 24,000</u>	<u>\$ 1,968</u>	<u>\$ 51,142</u>	<u>\$ 3,868</u>	<u>\$ 17,219</u>	<u>\$ 9,804</u>
LIABILITIES AND FUND BALANCES												
Liabilities:												
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Fund balances:												
Reserved for:												
Endowments	-	-	-	-	-	-	-	-	-	-	-	-
Industrial development	-	-	-	-	-	-	-	-	-	-	-	-
Designated:												
Capital projects	494,981	591,732	61,210	5	86,601	100	24,000	1,968	51,142	3,868	17,219	9,804
Total fund balances	<u>494,981</u>	<u>591,732</u>	<u>61,210</u>	<u>5</u>	<u>86,601</u>	<u>100</u>	<u>24,000</u>	<u>1,968</u>	<u>\$ 51,142</u>	<u>\$ 3,868</u>	<u>\$ 17,219</u>	<u>\$ 9,804</u>
Total liabilities and fund balance	<u>\$ 494,981</u>	<u>\$ 591,732</u>	<u>\$ 61,210</u>	<u>\$ 5</u>	<u>\$ 86,601</u>	<u>\$ 100</u>	<u>\$ 24,000</u>	<u>\$ 1,968</u>	<u>\$ 51,142</u>	<u>\$ 3,868</u>	<u>\$ 17,219</u>	<u>\$ 9,804</u>

Nephi City Corporation
Combining Balance Sheet for Nonmajor Funds (continued)
June 30, 2005

	Capital Improvement Funds (Continued)										Permanent Fund	Special Revenue Fund	Total Nonmajor Govt. Funds
	Police Grants	General Gov't Buildings	Golf Course Expansion	Interpark Trail	Trail Development	School Res. Officer	Equipment Purchases	Parks and Cemetery Equipment	Cemetery Perpetual Care	Industrial Development			
ASSETS													
Cash and cash equivalents	\$ (9,893)	\$ 13,043	\$ 43,882	\$ 8,293	\$ 2,400	\$ (13,849)	\$ 107,000	\$ 2,845	\$ 54,332	\$ 84,714	\$	\$	\$ 1,635,597
Receivables:													
Other governments	13,029					13,851							26,880
Total assets	\$ 3,136	\$ 13,043	\$ 43,882	\$ 8,293	\$ 2,400	\$ 2	\$ 107,000	\$ 2,845	\$ 54,332	\$ 84,714	\$	\$	\$ 1,662,277
LIABILITIES AND FUND BALANCES													
Liabilities:													
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Fund balances:													
Reserved for:													
Endowments	-	-	-	-	-	-	-	-	-	-	-	-	54,332
Industrial development	-	-	-	-	-	-	-	-	-	84,714	-	-	84,714
Designated:													1,523,231
Capital projects	3,136	13,043	43,882	8,293	2,400	2	107,000	2,845	54,332	84,714			1,662,277
Total fund balances	3,136	13,043	43,882	8,293	2,400	2	107,000	2,845	54,332	84,714	\$	\$	1,662,277
Total liabilities and fund balance	\$ 3,136	\$ 13,043	\$ 43,882	\$ 8,293	\$ 2,400	\$ 2	\$ 107,000	\$ 2,845	\$ 54,332	\$ 84,714	\$	\$	\$ 1,662,277

The Notes to the Financial Statements are an integral part of this statement.

The Notes to the Financial Statements are an integral part of this statement.

Capital Improvements Funds											
Drainage and Flood	Street Improvement	Street Rehab.	Library Grants	Recreation Improvement	Public Works Building	Cemetery Projects	Urban Forestry	Parks Development	Downtown Projects	City Hall Projects	Animal Shelter
\$ -	\$ 500,000	\$ -	\$ 6,896	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1	\$ -
-	-	-	-	-	-	-	-	-	-	-	-
-	500,000	-	6,896	-	-	-	-	-	-	1	-
-	500,000	-	6,896	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
-	21,065	135,739	7,045	467	-	-	7,579	20,858	6,096	-	91,530
-	21,065	135,739	7,045	467	-	-	7,579	20,858	6,096	-	91,530
-	-	-	-	-	-	-	-	-	-	1	(91,530)
-	478,935	(135,739)	(149)	(467)	-	-	(7,579)	(20,858)	(6,096)	-	-
-	-	-	-	-	-	-	-	-	-	8,900	-
-	113,000	184,000	-	71,185	-	10,965	8,990	52,000	6,000	8,900	-
-	113,000	184,000	-	71,185	-	10,965	8,990	52,000	6,000	8,900	-
-	-	-	-	-	-	-	-	-	-	-	-
-	591,935	48,261	(149)	70,728	-	10,965	1,411	31,142	(96)	8,901	(91,530)
-	(203)	12,949	154	15,873	100	13,035	557	20,000	3,964	8,318	101,334
494,981	-	-	-	-	100	\$ 24,000	\$ 1,968	\$ 51,142	\$ 3,868	\$ 17,219	\$ 9,804
\$ 494,981	\$ 591,732	\$ 61,210	\$ 5	\$ 86,601	\$ -	\$ 24,000	\$ 1,968	\$ 51,142	\$ 3,868	\$ 17,219	\$ 9,804

Nepht City Corporation
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Non-major Governmental Funds (continued)
For the Year Ended June 30, 2005

	Capital Improvement Funds (Continued)										Permanent Fund	Special Revenue Fund	Total Non-major Governmental Funds
	Police Grants	General Government Buildings	Golf Course Expansion	Interpark Trail	Trail Development	School Res. Officer	Equipment Purchases	Parks and Cemetery Equipment	Cemetery Perpetual Care	Special Revenue			
REVENUES:													
Intergovernmental Revenue	\$ 73,101	-	-	-	-	\$ 54,491	-	-	-	-	-	-	\$ 134,489
Proceeds from sale of mineral rights	-	-	-	-	-	-	-	-	-	-	-	-	500,000
Miscellaneous	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	<u>73,101</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>54,491</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>634,489</u>
EXPENDITURES:													
Current:													
General government	-	55,703	-	-	-	-	-	-	-	-	100	-	55,803
Public safety	75,508	-	-	-	-	54,489	-	-	-	-	-	-	221,527
Highways and public improvements	-	-	-	-	-	-	-	-	-	-	-	-	156,804
Parks, recreation, and public property	-	-	28,862	-	-	-	-	1,155	-	-	-	-	72,062
Total	<u>75,508</u>	<u>55,703</u>	<u>28,862</u>	<u>-</u>	<u>-</u>	<u>54,489</u>	<u>-</u>	<u>1,155</u>	<u>-</u>	<u>-</u>	<u>100</u>	<u>-</u>	<u>506,198</u>
Excess of revenues over (under) expenditures	<u>(2,407)</u>	<u>(55,703)</u>	<u>(28,862)</u>	<u>-</u>	<u>-</u>	<u>2</u>	<u>-</u>	<u>(1,155)</u>	<u>-</u>	<u>-</u>	<u>(100)</u>	<u>-</u>	<u>128,293</u>
Other financing sources (uses):													
Transfers in	-	20,650	19,100	-	-	-	51,000	-	-	-	-	-	545,800
Total other fin. sources (uses)	<u>-</u>	<u>20,650</u>	<u>19,100</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>51,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>545,800</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>(2,407)</u>	<u>(35,053)</u>	<u>(9,762)</u>	<u>-</u>	<u>-</u>	<u>2</u>	<u>51,000</u>	<u>(1,155)</u>	<u>54,332</u>	<u>-</u>	<u>(100)</u>	<u>-</u>	<u>674,093</u>
Fund Balances - beginning of year	5,543	48,096	53,644	8,293	2,400	-	56,000	4,000	54,332	-	84,814	-	988,194
Fund Balances - end of year	<u>\$ 3,136</u>	<u>\$ 13,043</u>	<u>\$ 43,882</u>	<u>\$ 8,293</u>	<u>\$ 2,400</u>	<u>\$ -</u>	<u>\$ 107,000</u>	<u>\$ 2,845</u>	<u>\$ 54,332</u>	<u>\$ -</u>	<u>\$ 84,714</u>	<u>\$ -</u>	<u>\$ 1,662,277</u>

The Notes to the Financial Statements are an integral part of this statement.

SINGLE AUDIT REPORTS

NEPHI CITY CORPORATION, UTAH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

A. SUMMARY OF AUDIT RESULTS

1. The independent auditors' report expresses an unqualified opinion on the basic financial statements of the Nephi City Corporation.
2. No instances of noncompliance material to the financial statements of the Nephi City Corporation were disclosed during the audit.
3. The independent auditors' report on compliance for the major federal award programs for the Nephi City Corporation, expresses an unqualified opinion.
4. The audit disclosed no reportable conditions that are required to be reported under OMB Circular A-133.
5. One audit finding relative to the major federal award programs for Nephi City Corporation is reported in section C. of this schedule.
6. The programs tested as a major programs include:

Airport Improvement Program	20.106
Apron Expansion	3-49-0023-05
Construction of Runway & Taxiway	3-49-0023-06
Construction of New Runway	3-49-0023-07
Construction of Taxiway & New Runway	3-49-0023-08
7. The threshold for distinguishing Types A and B programs was \$500,000.
8. The City of Nephi was determined to be a low-risk auditee.

B. FINDINGS FINANCIAL STATEMENT AUDIT

None

**NEPHI CITY CORPORATION, UTAH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005 (CONCLUDED)**

**C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD
PROGRAMS AUDIT**

Allowable Costs/Cost Principles – Documentation of Disbursements

Finding – Of 10 disbursements tested, one lacked an invoice for services provided (Utah Power & Light for electric connection at the airport).

Recommendation - City should ensure that all disbursements are fully documented.

Nephi City's Response – The City agrees that disbursements need to be documented and will take steps to ensure that it doesn't happen in the future.

**INDEPENDENT AUDITORS REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

August 19, 2005

The Honorable Mayor, and
Members of the City Council
Nephi City Corporation, Utah

Compliance

We have audited the compliance of The Nephi City Corporation (herein referred to as the "City") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.



LARSON & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control that we have reported to the management in a separate letter dated August 19, 2005.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the City as of and for the year ended June 30, 2005, and have issued our report thereon dated August 19, 2005. Our audit was performed for the purpose of forming an opinion of the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended for the information of the City Council, management, and various federal and state funding and auditing agencies. However, this report is a matter of public record and its distribution is not limited.

Larson & Peterson
Certified Public Accountants

NEPHI CITY CORPORATION, UTAH
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

Federal Grantor/Pass-Thru/ Grantor/Program Title	Federal CFDA Number	Expenditures
FEDERAL AVIATION ADMINISTRATION		
Airport Improvement Program	* 20.106	\$ 2,623,266
U.S. DEPARTMENT OF JUSTICE		
NARC Task Force	16.579	71,346
Local Law Enforcement Block Grant	16.710	54,491
TOTAL EXPENDITURES OF FEDERAL AWARDS		<u>\$ 2,749,103</u>

* Major Program

NEPHI CITY CORPORATION, UTAH
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2005

1. GENERAL

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of the Nephi City Corporation (City). The City reporting entity is defined in Note 1 to the basic financial statements. All federal awards received directly from federal agencies as well as federal awards passed-through other government agencies are included on the schedule of expenditures of federal awards.

2. BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards is presented using the modified accrual basis of accounting for expenditures in governmental fund types and on the accrual basis for expenses in proprietary fund types, which is described in Note 1 to the basic financial statements.

**CITY OF NEPHI, UTAH
MANAGEMENT LETTER, INDEPENDENT
AUDITORS' REPORT IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS*
AND INDEPENDENT AUDITORS' REPORT
ON LEGAL COMPLIANCE
JUNE 30, 2005**

**CITY OF NEPHI, UTAH
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JUNE 30, 2005**

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GOVERNMENT AUDITING STANDARDS REPORT



LARSON & PETERSON
CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN
AUDIT OF BASIC FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

August 19, 2005

The Honorable Mayor, and
Members of the City Council
Nephi City Corporation, Utah

Mayor and Council Members:

We have audited the accompanying basic financial statements of Nephi City Corporation, Utah (herein referred to as the "City"), as of and for the year ended June 30, 2005, and have issued our report thereon dated August 19, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

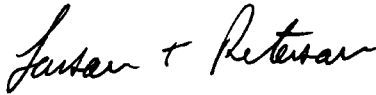
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on

the financial statements and not to provide assurance on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported in the management letter.

This report is intended solely for the information and use of the Mayor and City Council, management, others within the organization, and various State funding and auditing agencies and is not intended to be and should not be used by anyone other than these specified parties.



Larson & Peterson
Certified Public Accountants

STATE COMPLIANCE REPORT



LARSON & PETERSON
CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT ON LEGAL COMPLIANCE WITH
APPLICABLE UTAH STATE LAWS AND REGULATIONS**

August 19, 2005

The Honorable Mayor, and
Members of the City Council
Nephi City Corporation, Utah

Mayor and Council Members:

We have audited the basic financial statements of Nephi City Corporation, Utah, as of and for the year ended June 30, 2005, and have issued our report thereon dated August 19, 2005. As part of our audit, we have audited Nephi City Corporation's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2005. The City received the following major State assistance programs from the State of Utah:

B and C Road Funds
Liquor Law Enforcement

Our audit also included test work on the City's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Public Debt
Cash Management
Purchasing Requirements
Budgetary Compliance
Truth in Taxation and Property Tax Limitations
Justice Courts Compliance
Other General Compliance Requirements
Uniform Building Code Standards
Asset Forfeiture

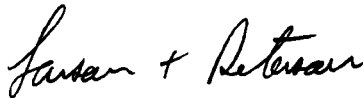
The management of Nephi City Corporation, Utah, is responsible for the City's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the management letter.

We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, Nephi City Corporation, Utah, complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching; level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2005.



Larson & Peterson
Certified Public Accountants

MANAGEMENT LETTER

MANAGEMENT LETTER CURRENT YEAR FINDINGS

STATE COMPLIANCE

FINDING – TREASURERS BOND

Treasurers bond is insufficient. Currently the bond is \$475,000 and it should be at the least \$500,000. State Law requires the bond amount to be at least 4% of the cities gross budgeted revenue for the prior year.

RECOMMENDATION

We recommend that the city review their prior year budgeted revenue and adjust the Treasurers Bond up or down to match the amount required by state compliance.

CLIENT RESPONSE

The city has already increased the bond amount to \$500,000

MANAGEMENT LETTER STATUS OF PRIOR YEAR FINDINGS

INTERNAL ACCOUNTING CONTROLS

FINDING – DISBURSEMENT TESTS

We tested 60 disbursements and found two instances of insufficient supporting documentation.

RECOMMENDATION

We recommend that all disbursements be properly supported by detailed documentation to ensure that only City related expenditures are paid for by City funds.

STATUS OF PRIOR YEAR FINDINGS

No problems noted in current audit.

STATE COMPLIANCE

FINDING – BUDGETED REVENUES

Budgeted revenues on the TC-693 Report for property taxes do not equal budgeted revenues for property taxes in the City's adopted budget as required by law.

RECOMMENDATION

We recommend that the City comply with this state regulation by ensuring that the adopted budget for property taxes equals the amount on the TC-693 Report.

STATUS OF PRIOR YEAR FINDINGS

No problems noted in current audit.

MANAGEMENT LETTER

STATUS OF PRIOR YEAR FINDINGS(CONTINUED)

FINDING – CASH DEPOSITS

During our audit we noted that the Golf Course does not always deposit cash within three business days of receipt. *Utah Code 51-4-2(2)* requires that all public funds be deposited daily, when practicable, but not later than three days after receipt.

RECOMMENDATION

We recommend that cash receipts be deposited daily, when practicable, but not later than three days after receipt. This will protect public funds and the personnel in charge of public funds.

STATUS OF PRIOR YEAR FINDINGS

No problems noted in current audit.

OTHER MATTERS

FINDING – UTILITY RECEIVABLES

There is a large amount of past due utility accounts. Shut off procedures do not appear to be followed consistently.

RECOMMENDATION

We recommend that utilities be shut off for past due accounts according to the City's policy. If the current policy is ineffective then a new policy could be created and implemented to ensure that the City is compensated for the services it provides.

STATUS OF PRIOR YEAR FINDINGS

No problems noted in current audit.

MANAGEMENT LETTER

STATUS OF PRIOR YEAR FINDINGS(CONTINUED)

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